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August 24, 2009

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1700-100: Proposed Statement of Financial Accounting Standard, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

Dear Mr. Golden:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

The current economic cycle has heightened the need for increased transparency of companies' credit risk exposures to finance receivables. To date many companies have increased transparency primarily through expanded MD&A and supplemental investor materials. The SEC's August 2009 "Dear CFO" letter further emphasizes the need for expanded MD&A with regards to provision expense, loss reserves, and the underlying risk exposures and risk mitigation activities.

While we agree with the transparency objectives of the exposure draft, we have a number of observations on the current proposal.

Complexity of the Current Mixed Accounting Framework for Finance Receivables

The comparability of credit accounting and disclosures, both within a company's loan/lease portfolio and between entities, can be reduced as a consequence of the existing mixed accounting framework for finance receivables. For example, the accounting for credit risk is different for a finance receivable that is originated by an entity and accounted for under FASB Statement No. 5, *Accounting for Contingencies* (FAS 5), and FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114), than one that is acquired by the entity at a discount and accounted for under Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3).

As this exposure draft focuses primarily on reserves and credit indicators associated with segmented groups of finance receivables, the resulting disclosures may not transparently present the credit exposure analytics in the proper context. The allowance for credit losses is just one of several ways credit impairment is recorded in the balance sheet for finance receivables. For example, some credit impairments are recorded as reserves under FAS 5 or FAS 114. Other credit impairments are effectively recorded on the balance sheet through (i) SOP 03-3 purchase discounts; (ii) the initial fair

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value basis under a business combination accounted for under FASB Statement No. 141(R), *Business Combinations*; (iii) finance receivables partially or fully charged off; and (iv) receivables carried at fair value. In addition, with respect to leveraged leases, a cumulative catch-up adjustment is required every time there is a change in the estimated cash flows, which eliminates the need for an allowance. These accounting differences may create comparability issues when evaluating an allowance relative to the credit risk exposures in these finance receivables. Deliberation of these differences within the Board's financial instruments and disclosure framework projects will provide an opportunity to better align the accounting models for finance receivables with the related disclosures.

Operational Complexity and Cost Considerations

The disclosures included in the proposed standard are extensive. Some disclosures would require companies to invest significant time and effort gathering the appropriate data. We expect the expanded disclosure requirements will burden financial institutions that have recently acquired loan portfolios because those finance receivables may be on different operating platforms. In addition, small- to medium-size companies (particularly non-financial institutions) may not have the resources to accumulate the appropriate data. In general, companies may need to implement additional technology, and operational and internal control processes. Those processes may be difficult to address in the proposed timeline. We recommend that the Board analyze the comments received from both preparers and users of financial statements and carefully consider the costs and benefits of the proposed disclosures.

Other Considerations

Disclosures

More clarity is needed on the disclosures required in paragraph 13(f) for specific disclosures
for previously modified loans that are now current. That paragraph requires disclosure of
finance receivables modified in the current year, while the example in Appendix A refers to
receivables modified in the previous year. We recommend the Board specify what the cutoff
point should be for this disclosure and use it consistently throughout the proposed standard.

Fair Value

Paragraph 8 of FASB Statement No. 107, Disclosure about Fair Value of Financial Instruments (FAS 107), provides for a scope exception for reporting the fair value of leases. The proposed standard does not modify that scope exception. However, under the proposal the fair value of leases would be required to be disclosed to meet the objective set out in paragraph 12. Disclosing the fair value of certain leases without additional context may not enhance a reader's understanding of the credit risk in these instruments. For example, the fair value of a leveraged lease is almost always less than its carrying value due to the accelerated revenue recognition that is inherent in the leveraged lease accounting model and the tax benefits that impact pretax income. If the fair values of those leases are disclosed in isolation, it may be inappropriately assumed by financial statement users that the lessor has delayed recognizing an impairment.

If the scope exception in FAS 107 is maintained, we recommend the Board clarify how that exception relates to the fair value disclosure requirement for leases in the proposed standard. If the scope exception in FAS 107 will no longer exist, the Board may want to require or encourage companies to provide sufficient information to assist readers' understanding of the relationship between credit risk and the fair value of these leases.

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Effective Date

• The proposed standard would become effective for interim and annual periods ending after December 15, 2009. We are concerned that companies may not have sufficient time to fully consider the principal objectives of the disclosures and assemble the required information. This could place a great deal of stress on some entities as they try to provide disclosures that are clear or complete. In addition, FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), will require some companies to consolidate entities with a large volume of finance receivables, and that will put further pressure on accounting and management resources, and systems and operational requirements during the implementation period for the standard. We recommend the Board consider responses from the preparers of financial statements in determining the operational impact of the proposal and the appropriateness of the proposed timeline for implementation.

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We appreciate the opportunity to express our views on the proposed standard. If you have any questions regarding our comments, please contact Russ Mallett (973) 236-7115.

Sincerely,



APPENDIX A Response to Questions

Exposure Draft

Proposed Statement of Financial Accounting Standard, Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses

Scope (Paragraph 2)

<u>Issue 1</u>: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and lessors' investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, Accounting for Leases. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

Response: We generally agree with the definition used to identify a finance receivable. However, we note that the disclosures required for certain finance receivables (as defined) may be challenging for financial statement users to understand due to the various accounting models used to record credit risk. See our comments about certain leases and finance receivables recorded at fair value in the attached cover letter.

<u>Issue 2</u>: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

Response: We agree.

Disclosures (Paragraphs 10-16)

<u>Issue 3</u>: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

Response: We agree that these rollforward schedules would provide users with information that would be helpful to understand the changes to the finance receivables and allowance during a given period.

<u>Issue 4</u>: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?

Response: See our comments on disclosures above.

<u>Issue 5</u>: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

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Response: We agree.

<u>Issue 6</u>: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

Response: Reporting the fair values of finance receivables is meaningful to users of the financial statements. It will be important, however, for companies to provide the information necessary for users of the financial statements to reconcile fair value (that includes elements of not only credit risk, but market, and liquidity risk) with the incurred loss model and other credit risk disclosures. Under normal conditions, it is conceivable that fair value could exceed carrying value, despite the incurred losses, which highlights the need for companies to provide such information.

<u>Issue 7</u>: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

Response: We support requiring disclosures for finance receivables and the allowance for credit losses in both interim and annual reporting periods. However, we suspect that the expanded disclosure requirements will carry a significant operation burden. See our comments on this subject in the attached cover letter.

Effective Date and Transition (Paragraph 17)

<u>Issue 8</u>: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.

Response: We are concerned that companies may not have sufficient time to fully consider the objectives of the disclosures and assemble the required information. The amount of consolidation and merger activity in the financial sector as well as the adoption of FAS 167 complicates the implementation of this standard as many entities have multiple finance receivable technology platforms. Extracting the required data from multiple platforms and formatting for disclosure in a short amount of time may expose these entities to additional control risk. We recommend the Board consider responses from the preparers of financial statements in determining the operational impact of the proposal and the appropriateness of the proposed timeline for implementation.